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Report No: PP4782

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT PAPER

ON A

PROPOSED GRANT

IN THE AMOUNT OF

US\$ 0.5 MILLION

TO

MONGOLIA

FOR A

STRENGTHENING TRANSPARENCY OF THE EXTRACTIVES INDUSTRIES THROUGH EITI
IMPLEMENTATION
{DATE}

Energy & Extractives Global Practice
East Asia And Pacific Region

Note to Task Teams:

1. Please modify amounts above and provide equivalent in US\$ if applicable.
2. Enter the date the Project Paper is sent for final approval.

CURRENCY EQUIVALENTS

(Exchange Rate Effective Oct 26, 2021)

Currency Unit =

= US\$1

FISCAL YEAR

January 1 - December 31

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ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
ASA	Advisory Services and Analytics
CPF	Country Partnership Framework
DA	Designated Account
EBRD	European Bank for Reconstruction and Development
EITI	Extractive Industries Transparency Initiative
FM	Financial Management
GDP	Gross Domestic Product
MEITI	Mongolian Extractive Industries Transparency Initiative national secretariat
MMHI	Ministry of Mining and Heavy Industry
MSG	Multi-Stakeholder Group
PIU	Project Implementation Unit
SOE	State Owned Enterprise



BASIC INFORMATION

Is this a regionally tagged project? No		Country (ies)
Financing Instrument Investment Project Financing		Classification Small Grants
Approval Date 31-Jan-2022	Closing Date 31-Dec-2023	Environmental and Social Risk Classification Moderate
Approval Authority CDA	Bank/IFC Collaboration No	

Please Explain

Proposed Development Objective(s)

To support achieve transparent systematic reporting to strengthen public accountability for the management of Mongolia's mineral wealth.

Components

Component Name	Cost (USD Million)
Strengthening participation and collaboration among EITI stakeholders	0.25
Preparing for EITI mainstreaming	0.25

Organizations

Borrower : Mongolia
Implementing Agency : Ministry of Mining and Heavy Industry



PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Project Cost	0.50
Total Financing	0.50
Financing Gap	0.00

DETAILS

Non-World Bank Group Financing

Trust Funds	0.50
Extractives Global Programmatic Support	0.50

Expected Disbursements (in USD Million)

Fiscal Year	2022	2023	2024
Annual	0.08	0.26	0.16
Cumulative	0.08	0.34	0.50

INSTITUTIONAL DATA

Financing & Implementation Modalities

Situations of Urgent Need of Assistance or Capacity Constraints

- Fragile State(s)
- Fragile within a non-fragile Country
- Small State(s)
- Conflict
- Responding to Natural or Man-made Disaster

Other Situations

- Financial Intermediaries (FI)
- Performance-Based Conditions (PBCs)
- Alternative Procurement Arrangements (APA)
- Series of Projects (SOP)
- Contingent Emergency Response Component (CERC)
- Hands-on Expanded Implementation Support (HEIS)



Practice Area (Lead)

Energy & Extractives

Contributing Practice Areas

Governance

OVERALL RISK RATING

Risk Category

Rating

Overall

● Moderate

COMPLIANCE

Policy

Does the project depart from the CPF in content or in other significant respects?

Yes No

Does the project require any waivers of Bank policies?

Yes No



Environmental and Social Standards Relevance Given its Context at the Time of Appraisal

E & S Standards	Relevance
Assessment and Management of Environmental and Social Risks and Impacts	Relevant
Stakeholder Engagement and Information Disclosure	Relevant
Labor and Working Conditions	Relevant
Resource Efficiency and Pollution Prevention and Management	Not Currently Relevant
Community Health and Safety	Not Currently Relevant
Land Acquisition, Restrictions on Land Use and Involuntary Resettlement	Not Currently Relevant
Biodiversity Conservation and Sustainable Management of Living Natural Resources	Not Currently Relevant
Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	Not Currently Relevant
Cultural Heritage	Not Currently Relevant
Financial Intermediaries	Not Currently Relevant

Legal Covenants

Conditions

PROJECT TEAM

Bank Staff

Name	Role	Specialization	Unit
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Extended Team			
Name	Title	Organization	Location



MONGOLIA

STRENGTHENING TRANSPARENCY OF THE EXTRACTIVES INDUSTRIES THROUGH EITI IMPLEMENTATION

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I. STRATEGIC CONTEXT

A. Country Context

1. The extractive industries have contributed over 20% of Mongolia's GDP, over 50% of industrial output, and over 80% of export earnings in recent years (2019 EITI Report). The largest contributors to the economy are the Oyu Tolgoi and Erdenet copper mines, several thermal and metallurgical coal mines, numerous gold mines and others that produce iron ore, zinc, and fluorspar, as well as a few small oilfields. Oyu Tolgoi will complete a substantial expansion by 2023 and exports of metallurgical coal are benefitting from a sharp upturn in China's industrial activity and greater import reliance, paving the way for expansion of the Tavan Tolgoi coal complex. The Government's Action Plan for 2020-24 foresees a strong contribution of the mining sector to post-COVID recovery based on mine expansions, new mines, greenfield mineral processing plant and related infrastructure development, including new power generation and transmission, new rail transportation and water supply pipelines. Thus, while the country wishes to diversify the economy away from mining over the medium-to-long term, a heavy investment program in extractives, including a prominent role for State-owned Enterprises (SOEs) in achieving this, dominates the short-to-medium term outlook. Reliance on mining to ride through the COVID induced economic downturn and now to bounce back post-COVID is evident.

B. Sectoral and Institutional Context

2. The governance of the extractive industries has for some time been of public concern as evidenced by perception polling, numerous cases of community level objection to mining, lobbying by foreign investors for greater investment policy stability and consistent implementation of regulations by state agencies and the frequency with which commercial activities linked to mining become mired in dispute, often linked to corruption. Moreover, the management of revenues generated by mining and petroleum companies is considered by many to be short-sighted and open to only limited scrutiny. In this context the Extractives Industry Transparency Initiative (EITI) serves as an important forum for shedding light on the performance of the extractive industries and promoting greater public greater access to critical data and a stronger voice in holding companies and public institutions to account.
3. The EITI implements the global standard to promote the open and accountable management of oil, gas and mineral resources. The EITI Standard requires the disclosure of information along the extractive industry value chain from the point of extraction, to how revenues make their way through the government, and how they benefit the public. By doing so, the EITI seeks to strengthen public and corporate governance, promote understanding of natural resource management, and provide the data to inform reforms for greater transparency and accountability in the extractives sector. In each of the 55 implementing countries, the EITI is supported by a coalition of government, companies, and civil society, known as a multi-stakeholder group (MSG).
4. Mongolia was an early member of EITI and one of the first to comply with the EITI standards in 2010. The



benefits of this decade long association with transparent reporting of extractive sector revenue has built stakeholder confidence and partnership between Government, Company and Civil society. This is reaffirmed in the Mongolia MSG where stable partnerships and open dialog with civil society are prevalent. With the dominance of mining set to continue in this decade, the sustainability of EITI and initiatives linked to it has never been more important.

5. Proceeding its early adoption of EITI 2010, Mongolia has maintained its compliant status through two validations, the latest of which was in 2017. The third validation began in January 2022 after the 2019 EITI Report was published (December 2020). The main issues highlighted in the 2019 and earlier EITI Reports and in public engagement around EITI have been financial sustainability of EITI, activation of sub-national EITI Councils after remaining dormant for some time, implementation of the Beneficial Ownership Roadmap, fuller disclosures by state-owned entities in the sector, data quality assurance improvements, gender parity in the MSG, filling gaps in contract disclosures, improved consistency in official statistics and strengthening the e-reporting system. Moreover, Mongolia has some way to go to mainstream reporting into country systems, as the country continues to rely on annual reporting through the EITI process.
6. The Minister of Finance, in a letter dated April 26, 2021, highlighted a need for more sustainable financing of EITI and requested support from the World Bank. An arrangement with Asian Development Bank (ADB) under which it took over from the World Bank in providing grant support for EITI closed at the end of CY2021. The State Budget has supported a portion of EITI implementation costs for several years, notably for the preparing of EITI Report and some of the recurrent costs of the National EITI Secretariat. In 2020 the State Budget covered just under 30% of the EITI annual budget, nevertheless, this has not been underpinned by any legal requirement, despite calls for complete State Budget financing of National EITI Secretariat from the donor community and mining sector stakeholders. The proposed Law on Transparency in the Mineral Resources Sector includes measures to better institutionalize EITI and, with it, the sources of funding. European Bank of Reconstruction and Development is directly funding activities specifically related to implementation of the Beneficial Ownership Roadmap but this has also closed (mid-2021).
7. EITI is being implemented in Mongolia on a considerably reduced budget compared to some years ago – the budgets for 2020 and 2021 were of the order of US\$300,000 and US\$380,000 respectively, even with ADB's support. Data from the International EITI Secretariat in Oslo shows that this is below the average among the 54 countries implementing EITI. The activity lists contained in the 2020 and 2021 Work Plans are quite limited in scope, especially in light of the issues which need to be resolved (noted above). Thus, the priority is not only to underpin the EITI initiative in Mongolia with State Budget commitments to core operational costs but also to resume financing across a range of areas where qualitative improvements in EITI implementation are needed in the two years ahead.
8. The proposed Transparency Bill planned to be table in Parliament during the spring sitting, will provide the Mongolia EITI (MEITI) with funding need to be self-sufficient. As such it is envisaged that this is the last grant required from the World Bank and other donor partners, bridging the current funding gap in anticipation of sustainable domestic budget for MEITI. This proposed grant will provide the MEITI with the necessary funds to continue the outreach process with stakeholders, placing the MEITI in a position and with the needed capacity to mainstream EITI implementation and continue cross sector engagement.
9. Through the activities (below), the proposed grant will build sustainable capacity to implement the EITI under the future domestic financing model, including building capacity in contract transparency



requirements; preparing, and implementing outreach engagements; and improving E-Systems and data systemization.

C. Higher Level Objectives to which the Project Contributes

10. At the country level, the Project to support EITI implementation in Mongolia contributes to several of the World Bank's broader goals outlined in the Country Partnership Framework (CPF) for Mongolia FY21-FY25. The CPF sets out that the Mongolian mining sector will continue to play a key role in promoting economic development, but it needs to be managed in a more sustainable and inclusive way. Implementing EITI improves sector governance, dialog, and transparency. Of the CPF's three focus areas, Focus Area: Boasting Competitiveness includes the objective - Promoting sustainable mining investments. This objective aims to attract and retain quality FDI to develop Mongolia's world-class mining projects. The government's capacity to manage mining assets, especially in joint ventures with international partners needs to be enhanced, including transparent reporting of mining sector revenues and improving cross sector dialog with stakeholders.
11. The CPF includes the planned activity, EITI implementation support grant for FY22-24.
12. In addition, the grant support is aligned with:
 - (a) Pillar 1 Objectives on EITI support of the Extractives Global Programmatic Support multi donor trust fund which will be the source of the grant finance
 - (b) the World Bank's ongoing ASA on strategies to develop the mining sector on a more sustainable and inclusive basis which will inform programming under the CPF of DPOs and other lending instruments from FY22 onwards.
13. The grant support is in line with the Mongolian Government's view of the extractives sector. As the Government states: the extractives sector of Mongolia is the key pillar for economic growth and it is crucial for us to enhance the sector governance and to ensure the benefits be shared equally for the nation. As such, the Government is willing to continue Mongolia's EITI project to further strengthen sectoral regulatory and institutional development while improving transparency and accountability.
14. At a more technical level, the Project will build on past and current engagements with the Government of Mongolia to improve extractive sector governance and implement EITI, most recently through the grant support from ADB and previous World Bank grants.

II. PROJECT DEVELOPMENT OBJECTIVES

A. PDO

To support MEITI implement its 2022/ 2023 Workplans, and thereby achieve transparent systematic reporting to strengthen public accountability for the management of Mongolia's mineral wealth.



B. Project Beneficiaries

15. **Government** (primarily the Ministry of Mining and Heavy Industry (MMHI) as the lead agency, the Ministry of Finance, and other reporting entities under the EITI) – These government agencies that are mandated to monitor and regulate the extractive industries are expected to continue generating and reporting the information necessary for the annual EITI Reports in an accurate and timely fashion while gradually moving towards systematic disclosure. They are also responsible for contributing to the leadership of EITI implementation via representation on the MSG. The MMHI, through the MSG chairperson, serves as the convener of the MSG and supervises the National Secretariat for MEITI. Over the course of the previous grants, these entities demonstrated commitment to participating in the EITI process.
16. **Industry** – Industry is expected to continue providing a full and accurate report of all payments made to the government, including social expenditures and other relevant data required under the EITI Standard. Transparency of payments to the government can also help demonstrate the industry’s contribution to Mongolia. It is also an obligation to disclose contracts dated 1 January 2021 onwards stating the terms attached to the exploration and production. Similarly, beneficial ownership of interests in mineral and hydrocarbon licenses must be disclosed by 2020. In the process, the industry is expected to recommend policies and reforms to achieve the objectives of EITI implementation, channeled through industry representative on the MSG.
17. **Civil Society Organizations** – Civil society’s role is to monitor EITI implementation, evaluate the EITI Disclosures, and provide essential inputs to the EITI process through its involvement on the MSG. Civil society will benefit from increasing amount of information in the public domain, and is expected to continue encouraging and leading the public debate on how the government manages the sector and the revenues on behalf of citizens. It also plays a role in advocating for and representing the interests of vulnerable groups such as indigenous peoples and mine-affected communities. In addition, with the project’s emphasis on stakeholder engagement will have a positive impact on citizen knowledge and capacity building for mining communities, journalists, civil society organizations and non-government organizations.

C. PDO-Level Results Indicators

18. The key results of the proposed grant will be: (i) satisfactory progress of EITI implementation in Mongolia and (ii) funding of EITI implementation in Mongolia becomes fully financed by the Government. The key results will be measured through the following indicators:
 - (a) Mongolia achieves (and maintains) satisfactory progress in EITI implementation.
 - (b) Number of government agencies that have implemented mainstream data reporting as required under the 2019 EITI Standard..



III. PROJECT DESCRIPTION

A. Project Components

19. This grant will support the MEITI to strengthen stakeholder engagement and promote policy dialogue through public outreach events, workshops, webinars, and other forms of activities that can actively engage stakeholders in using information that are disclosed through the EITI process. In addition to strengthening this engagement mechanism, the grant is also expected to equip MEITI with knowledge, skills, and capacity to gradually implement EITI mainstreaming in Mongolia.
20. The grant comprises the following two components and associated activities:
21. **Component 1. Strengthening participation and collaboration among EITI stakeholders (\$250,000).** This component will focus on stakeholder engagement and outreach to promoting the EITI process to improve extractive sector governance.
22. **Activity 1.1. Subnational outreach.**
23. Several Sub-national EITI Councils were created in between 2005-2018 but have received little support to build capacity to perform their functions effectively. In 2021 MEITI benefitted from financial support from the IFC to conduct regional conferences and provide training of trainers with a view to beginning to build capacity of Sub-national EITI Councils. This activity will build upon the previous work to build capacity for the Sub-national EITI Councils to implement outreach programs.
24. Activities to be supported include:
 - (a) Training for sub-national council members on EITI and stakeholder engagement;
 - (b) Knowledge sharing seminars between sub-councils;
 - (c) Organizing EITI regional conferences and roadshows;
 - (d) MEITI Communication activities; and
 - (e) Workshops for NGOs and journalists on EITI activities and data access.
25. **Activity 1.2. Multi-Stakeholder Group gender parity.**
26. Limited progress to achieve gender parity goals has been made to date. By 2022 gender targets must be met in the composition of the EITI MSG (National Council and Working Group), the MEITI Secretariat and the Sub-national EITI Councils.
27. Activities to be supported include:
 - (a) Workshops on mining sector gender issues at National and Subnational levels.
 - (b) Training for MSG and EITI Council members on gender issues in the mining sector
 - (c) Drafting MSG member selection guidelines
28. **Activity 1.3. Implementation of the Beneficial Ownership Roadmap.**



29. A Roadmap for Beneficial Ownership disclosures was approved at the end of 2019 with a view to implementation in the succeeding years. The ability to proceed with full implementation of the Beneficial Ownership Roadmap is contingent on adoption of the Law on Transparency in the Mineral Resources Sector, which would mandate relevant disclosures.
30. Activities to be supported include:
- (a) Design an online beneficial ownership reporting system
 - (b) Implementation and training for the new system and procedures
 - (c) Workshops for data providers and stakeholders
 - (d) Dissemination and discussion about beneficial ownership reporting through radio and tv and social networks
31. **Activity 1.4. Validation support.**
32. The EITI holds all implementing countries to the same global standard. Through validation, the EITI's quality assurance mechanism, implementing countries are assessed on their ability to meet the provisions of the EITI Standard. The EITI's validation model was revised in December 2020. The new approach seeks to maintain a rigorous approach to validation, while ensuring that EITI implementation can respond to national priorities. It acknowledges that countries have starting different points and face diverse challenges in implementing the EITI, and that they will use the EITI to address their most pressing priorities for improving extractives governance.
33. MEITI will undergo validation from January 2022. The validation process requires numerous activities for MEITI, MSG and other stakeholders.
34. Activities to be supported include:
- (a) Hosting national conferences (pre- and post-Validation)
 - (b) Preparation and participation in the international EITI Conference
35. **Component 2. Preparing for EITI mainstreaming (\$250,000).** Mainstreaming or systematic disclosures is a new requirement under the 2019 EITI Standard. The implementation of mainstreaming may affect how implementing countries should allocate resources in pushing transparency and accountability in extractive governance. This includes addressing existing legal and administrative barriers to information disclosures, through changes in regulations and improvements in the existing reporting and data management systems. MMHI acknowledges these challenges and remains committed to ensure Mongolia's active participation in EITI and will align the ongoing MMHI systems enhancement initiatives such as the existing EITI E-reporting system with EITI requirements.
36. **Activity 2.1. Improving official statistics consistency through Enhancing E-Systems and data systemization**
37. The last Validation and past MEITI Reports have identified the need for greater consistency in official statistics issued by State bodies to close gaps, reduce inconsistency and improve quality. This will partly be addressed by upgrading and improving Mongolia's existing EITI E-reporting system. Some technical upgrades have been carried out in 2021 but a more wholesale upgrade is needed to address all data reporting issues. The proposed Law on Transparency in the Mineral Resources Sector, once adopted, will



clarify the legal basis for disclosures by State bodies.

38. Similarly, the MEITI is working with the National Audit Office on improve mining sector data quality and consistence across agencies.

39. Activities to be supported include:

- (a) Upgrading the existing E-Reporting System and integrating it with the E-Government system
- (b) Operator and user trainings or workshops for the new systems
- (c) Awareness workshop and seminar for staff of both central and local National Audit Offices

40. Activity 2.2. Improving contract disclosure.

41. To date contract disclosure has been on a voluntary basis and the custodian of the disclosure platform has been the Open Society Forum. By Decision No. 54 of the MEITI Working Group in March 2021 the Open Contract website, administered by Open Society Forum was handed to MEITI Secretariat. Under the 2019 EITI Standard contract disclosure is mandatory. The proposed Law on Transparency in the Mineral Resources Sector provides the legal basis for moving to mandatory disclosure. Gaps in disclosure have included sales or export contracts and tracking payments by importer.

42. Activities to be supported include:

- (a) Design an upgrade of the online contract disclosure platform
- (b) Capacity building for contract disclosure processes

43. Activity 2.3. Disclosures by state-owned entities in the sector.

44. The last validation and past EITI Reports highlighted that disclosures by state owned entities in the extractives sector have been incomplete and quality assurance lacking, compared with their private sector counterparts and other State bodies. This can be improved with SOE staff capacity building on EITI disclosure requirements.

45. Activities to be supported include:

- (a) Seminars and training to share knowledge among SOEs about information disclosures required under EITI and the new Law on Transparency in the Mineral Resources Sector
- (b) Workshops for upper management and board members on SOEs disclosure obligations

46. Activity 2.4. Capacity building for government officials.

47. This activity will provide seminars and study tours (travel restrictions permitting) for government official responsible for mining sector regulation to improve their capacity on transparency and governance issues. It will advance their understanding of international good practice on these topics of transparency and governance in the mining sector.

48. MEITI is working closely with the ADB for financial support for ongoing operating costs for the calendar year 2022.



B. Project Cost and Financing

Project Components	Project cost	Trust Funds	Counterpart Funding
Component 1. Strengthening participation and collaboration among EITI stakeholders	250,000 USD	250,000 USD	
Component 2. Preparing for EITI mainstreaming	250,000 USD	250,000 USD	
Total Costs	500,000 USD	500,000 USD	
Total Project Costs	500,000 USD		
Total Financing Required		500,000 USD	

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

49. The Implementing Agency for this project is the MMHI, which houses the National Secretariat for the MEITI under the Secretary General. MEITI will serve as the Project Implementation Unit (PIU) and will work according to the national EITI workplan that is developed and approved by MSG on an annual basis.
50. The PIU will hold administrative, fiduciary, procurement, environmental and social risk management, and monitoring responsibilities. The PIU will also deploy the staff needed for proper implementation of the environmental and social risk mitigation measures, as this project will be implemented under the Environmental and Social Framework.
51. Joint oversight and supervision of the grant will be undertaken on quarterly basis. This will ensure transparency and effectiveness. The activities will be supervised by the World Bank. The team will provide technical advice during the grant implementation as required as well as supervise the operational progress and provide fiduciary oversight/clearances.

B. Results Monitoring and Evaluation

52. Monitoring project implementation and progress towards the achievement of the PDO indicators shall be the responsibility of the National Secretariat. Monitoring is built into the EITI process through regular reporting and the transparency of EITI Council proceedings. Regular reporting will contribute to monitoring



and evaluation of the grant will include: (a) regular reports to the MEITI Council, (b) production of MEITI council and subcommittee minutes, and (c) timely publication of annual activity reports, per the EITI Standard.

53. MEITI shall ensure that each project report is provided to the Bank not later than forty-five (45) days after each calendar semester, covering the calendar semester.

(a) MEITI shall monitor and evaluate the progress of the Project and prepare Project Reports. Project Reports shall cover 6-month periods (January-June, due by August 15th and July-August, due February 15th).

(b) MEITI shall also prepare and submit the Completion Report to the Bank not later than six (6) months after the Closing Date.

54. In addition to the EITI and National Secretariat monitoring, the World Bank and International EITI Secretariat will also undertake regular supervision of activities related to the grant.

C. Sustainability

55. During the first year of the project (CY 2022), the Government of Mongolia is expected to pass the Transparency Bill, which will serve as a basis for allocating government budget and provide the legal basis for financial data acquisition, reporting and publication. The project will provide support for the MEITI's activities during this year while, ADB plans to provide operational expenses. Effectively a year of bridging finance while the Government prepares to allocate budget contributions from CY 2023 for EITI implementation. This project will continue to support EITI implementation activities through CY 2023.

V. KEY RISKS

A. Overall Risk Rating and Explanation of Key Risks

56. The overall risk rating is: **Moderate**. The main risks are as follows.

57. Risks associated with the proposed project are mitigated by clearly expressed demand for financial support and a commitment of the Government of Mongolia to implement EITI in compliance with the 2019 EITI Standard, building on a track record of unbroken compliance with EITI since 2010. Fiduciary risks are mitigated by reliance on a tried and tested implementation arrangement which has given rise to only very minor issues in over a decade of experience.

58. Legislation risk: There remains uncertainty about the passage of new extractives transparency legislation into law. Any further delay or shelving of the Bill would signal weakening commitment, whereas its enactment would be a powerful sign of assurance in EITI implementation and transparency for the extractives sector. The consequence of further delays include inability to secure State Budget or alternative donor support for core running costs of Mongolia EITI (such costs are ineligible for funding through the



World Bank grant under EGPS MDTF rules) resulting in disruption of EITI Work Plan implementation.

59. Stakeholder risk: EITI is a multilateral process that involves different stakeholders pursuing their own goals and interests that will not lead to a group success without an ability to interact and build consensus. Effective cooperation and mutual trust among various stakeholders is a core and vital prerequisite for building good governance and accountability in the extractive sector as well as achieving EITI compliance. Building trust and confidence among all stakeholders will be a central part of MEITI communication and capacity building component aimed at developing MEITI Communication Strategy designed to meet and address the needs of each side of the multi-stakeholders group.
60. Residue risks include:
- (a) unexpected changes in institutional mandates: MEITI was transferred from Ministry of Finance oversight to Ministry of Mining and Heavy Industry oversight under a previous change of government resulting in some instability during the transition; and
 - (b) wider changes in the political economy and investment climate which might test the commitment of either the mining industry or civil society to MEITI and active participation in the MSG.
61. There continues to be risks associated with COVID-19 which may have impacts on the overall project implementation. COVID 19 restrictions may impact the project mainly in two aspects; (i) the restrictions on travel that will limit the presence of international expertise on the ground, (ii) the limitation on organization large scale workshops, dissemination events, and consultation with face-to-face interaction. The mitigation measures that the project will adopt is to establish sufficient connectivity facilities including video conferencing to enable virtual meetings and discussion. And, to implement and introduce operation procedures designed to reduce the risk of COVID-19 transmission in the workplace including provisions for social distancing and hygiene.

VI. APPRAISAL SUMMARY

62. The project is not amenable to cost-benefit analysis due to the main objective being to support the Recipient's efforts to promote transparency and good governance in oil, gas and mining sectors. Economic benefits from the project supporting the EITI implementation in Mongolia are potentially derived from contributions to: (a) improved investment climate and access to capital; (b) improved revenue monitoring and oversight; and (c) more transparent and accountable extractive sector.
63. Financial Management: The MMHI will be the implementing agency, and the role of a Project Steering Committee will be undertaken by the currently existing Multi-Stakeholder Group headed by State Secretary of the MMHI which includes over 30 members from various government agencies and Ministries as well as other public and private entities. The National Secretariat for EITI Mongolia which is housed under the MMHI will fulfill the functions of a Project Implementation Unit including the fiduciary aspects and will report to the State Secretary of the MMHI. The National Secretariat has an extensive experience and satisfactory track record in implementing Bank financed projects including the EITI Phase I and II grants, Post



Compliance I and II as well as the Mongolia Improved Governance Extractives Project since 2007. The Secretariat Office comprises of EITI national coordinator, financial officer, communications specialist and IT consultant. The financial officer who will be responsible for handling all the financial management duties for the project has over 20 years of relevant professional experience in the field and proficiently worked on previous EITI projects financed by the Bank.

- 64. The project’s FM arrangements, including the handling of the grant proceeds through the project’s Designated Account (DA), will be managed by the PIU with proper approvals from both the MMHI and Ministry of Finance. The DA will be set up with the Treasury Single Account managed by MOF. The Bank has conducted an FM assessment on the proposed operation and has identified actions/measures to strengthen the project’s FM arrangements. The residual FM risk for the project after the mitigating measures is assessed to be Moderate. The FM assessment concludes that with the implementation of the proposed actions, the FM arrangements will meet the World Bank’s minimum requirements under the Bank Directive: Financial Management Manual for World Bank Investment Project Financing Operations. The FM assessment in Annex of the Project Paper provides detailed information on the project FM and disbursement arrangements. A Financial Management Manual will be developed by the PIU and approved by the Bank before the project effectiveness.
- 65. Procurement: Procurement and contract implementation will be assumed by the National Secretariat for EITI (PIU) which is housed under the MMHI. The National Secretariat has experience and satisfactory track record in implementing Bank financed projects including the EITI Phase I and II grants, Post Compliance I and II as well as the Mongolia Improved Governance Extractives Project since 2007. The risks identified from the procurement capacity and risk assessment include: (i) the PIU procurement officer may be changed and the new officer may have little knowledge about procurement in Bank financed projects; (ii) the procurement for small value contracts can follow simple procedures, but in practice it may be made complicated as the domestic practices may have influence on people’s behavior even when the Bank’s procurement policies will be used; (iii) the evaluation committee members normally do not have knowledge and experience in procurement arrangements under the Bank financed projects, and the evaluation may not be conducted in accordance with the Bank’s Procurement Regulations for the IPF Borrowers, and by the provisions stipulated in the Grant Agreement. The project procurement risk is rated as moderate. Mitigation actions of the identified risks include: (i) the Bank team delivers regular training to the PIU staff and the evaluation committee members; (ii) procurement post review is carried timely and relevant findings are shared with PIU timely. Further details of the procurement arrangements as well as procurement risks and mitigation measures are provided in the Annex on Implementation Arrangements.

A. Legal Operational Policies

	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

B. Environmental and Social



The project aims to support Mongolia Extractive Industries Transparency Initiative (EITI) to implement the 2022 and 2023 Workplans and thereby achieve systematic reporting in accordance with the 2019 EITI Standard and contribute to strengthening public accountability for the management of Mongolia's mineral wealth. The project activities will be carried out nationwide, and include communication and outreach on mining sector gender issues, design and implementation support of a beneficial ownership reporting online system, conferences to support EITI standard validation, upgrading of the existing E-Reporting System and the online contract disclosure platform, along with relevant capacity building and knowledge sharing workshops for key stakeholders. The overall environmental risk is rated Low and the social risk is classified Moderate.

The project activities will not have direct physical footprints on a certain geographic location requiring environmental and social (E&S) assessment of the intended activities. The workshops and conferences will be held virtually during COVID-19 pandemic or in existing physical buildings (e.g. hotels, offices, etc.) following domestic COVID-19 guidelines when the pandemic is over. Therefore, the risk of COVID-19 transmission is minimal. The project does not intend to address or resolve any specific environmental issues of concern to the extractive industries, but will promote better environmental performance of regulators and operators through improved information disclosure, which may include environmental and social assessment reports and compliance monitoring reports. Overall, the project has negligible risks to and impacts on human populations and the environment, and the environmental risk is deemed low.

The project will be implemented by Ministry of Mining and Heavy Industry of Mongolian government which houses the Mongolia EITI Secretariat. A PIU will be established for day-to-day project management, staffed with an E&S focal point responsible for (i) facilitating and monitoring the implementation of stakeholder engagement plan and environmental and social commitment plan; (ii) coordinating with relevant agencies in resolving E&S issues relevant to the project; (iii) recording E&S issues of concern and any project-related complaints; (iv) maintaining close contacts with the Bank team and reporting on the project's E&S progress/performance including any incidents/accidents. As this RETF will be the Implementing Agency's first time to apply ESF standards, the Bank task team will provide training and hands-on support to the PIU staff/consultants during preparation and implementation of the project. Two categories of workers are expected: i) direct workers; ii) contracted workers. The nature of work is limited to research, advisory, training, media dissemination, and therefore the risk of forced labor or child labor is minimal, and the risk concerning working conditions and occupational health and safety (OHS) is considered low.

The Borrower has prepared an Environmental and Social Commitment Plan (ESCP) and a Stakeholder Engagement Plan (SEP). These two documents were consulted with key stakeholders, and disclosed in Mongolian on the Borrower's website on November 30, 2021. The type of stakeholder and means of engagement and other public outreach activities has been outlined in the SEP to generate wide and active and constructive stakeholder forum on extractive sector transparency issues. In the ESCP, the Borrower is committed to i) adhering to existing national COVID-19 measures for activities that could be held in the secretariat building during the pandemic; ii) adhering to existing labor contract management for civil servants, and ESS2 provisions for contracted workers, including potential health risks due to exposure to COVID-19 and grievance redress mechanism (GRM); iii) publicly disclosing information about project activities, engage relevant stakeholders, and mechanism to receive and address feedback and grievances. During implementation, terms of reference (TOR) for specific technical consultancies supported under the Grant will be screened to determine if there are any environmental or social implications of the specific technical assistance (TA). As relevant, such TA would involve stakeholders and ensure appropriate disclosure of research findings and recommendations.



VII. World Bank Grievance Redress

Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service>. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.



VII. RESULTS FRAMEWORK AND MONITORING

Results Framework

COUNTRY : Mongolia

Strengthening Transparency of the Extractives Industries through EITI Implementation

Project Development Objectives

To support achieve transparent systematic reporting to strengthen public accountability for the management of Mongolia’s mineral wealth.

Project Development Objective Indicators

Indicator Name	Corporate	Unit of Measure	Baseline	End Target	Frequency	Data Source / Methodology	Responsibility for Data Collection
Name: Satisfactory Progress achieved in EITI implementation		Text	Meaningful Progress	Satisfactory Progress			
Description:							
Name: Number of government agencies that have implemented mainstream data reporting as required under the 2019 EITI		Number	0.00	3.00			



Indicator Name	Corporate	Unit of Measure	Baseline	End Target	Frequency	Data Source / Methodology	Responsibility for Data Collection
Standard.							

Description:

Intermediate Results Indicators

Indicator Name	Corporate	Unit of Measure	Baseline	End Target	Frequency	Data Source / Methodology	Responsibility for Data Collection
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Name: Training of sub-national council members, with at least one focused on gender related issues

Number

0.00

5.00

Description:

Name: Multi-Stakeholder Group reaching gender parity

Percentage

30.00

48.00

Description:

Name: Implementation of the Beneficial Ownership Roadmap

Yes/No

N

Y



Indicator Name	Corporate	Unit of Measure	Baseline	End Target	Frequency	Data Source / Methodology	Responsibility for Data Collection
Description:							
Name: Completing data systemization		Yes/No	N	Y			
Description:							
Name: Disclosure of EITI required data by SOE's		Number	0.00	5.00			
Description:							



Target Values

Project Development Objective Indicators

Indicator Name	Baseline	End Target
Satisfactory Progress achieved in EITI implementation	Meaningful Progress	Satisfactory Progress
Number of government agencies that have implemented mainstream data reporting as required under the 2019 EITI Standard.	0.00	3.00

Intermediate Results Indicators

Indicator Name	Baseline	End Target
Training of sub-national council members, with at least one focused on gender related issues	0.00	5.00
Multi-Stakeholder Group reaching gender parity	30.00	48.00
Implementation of the Beneficial Ownership Roadmap	N	Yes
Completing data systemization	N	Yes
Disclosure of EITI required data by SOE's	0.00	5.00

Annex: Implementation Arrangements

Financial Management

The Bank FM team has conducted a financial management capacity assessment for the captioned project and assessed the residual FM risk as Moderate. The assessment, based on the World Bank Directive: Financial Management Manual for World Bank Investment Project Financing Operations issued on February 10, 2017, reviewed the adequacy of the project FM arrangements and concluded that the project will meet the World Bank’s minimum FM requirements. In the FM team’s view, the project will have FM arrangements acceptable to the Bank which, as part of the overall arrangements that the government will have put in place for implementing the operation, provide reasonable assurance that the proceeds of the grant will be used for the intended purposes for which the grant is provided.

The Ministry of Mining and Heavy Industry (MMHI) will be the implementing agency (IA), and the role of a Project Steering Committee will be undertaken by the currently existing Multi-Stakeholder Group headed by State Secretary of the MMHI which includes over 30 members from various government agencies and Ministries as well as other public and private entities. The National Secretariat for EITI Mongolia which is housed under the MMHI will fulfill the functions of a Project Implementation Unit (PIU) including the fiduciary aspects and will report to the State Secretary of the MMHI. The National Secretariat has an extensive experience and satisfactory track record in implementing Bank financed projects including the EITI Phase I and II grants, Post Compliance I and II as well as the Mongolia Improved Governance Extractives Project since 2007. The Secretariat Office comprises of EITI national coordinator, financial officer, communications specialist and IT consultant. The financial officer who will be responsible for handling all the financial management duties for the project has over 20 years of relevant professional experience in the field and proficiently worked on previous EITI projects financed by the Bank.

FM risk is the risk that the grant proceeds will not be used for the purposes intended and is a combination of country, sector, and project-specific risk factors. The FM assessment did not identify any major risks associated with the proposed implementation and financial management arrangements that could not be mitigated. The risks and corresponding mitigating measures identified during the FM Assessment are summarized in below table.

Detailed Risk Assessment and Mitigation Measures

(Abbreviations used: RR – Risk Rating; H – High; S – Substantial; M – Moderate):

Risk	RR	Incorporated Risk Mitigating Measures	RR After Mitigating Measures
Inherent Risk			
<ul style="list-style-type: none"> • Country level Potential changes in the government officials involved in decision	S	Collaborate with the relevant government counterparts to ensure that continuity around project implementation is maintained.	M



making on project activities and possible impact on the Secretariat Office and FM staffing.			
<ul style="list-style-type: none"> Entity Level <p>The ownership and support from the implementing agency may not be strong.</p>	S	The day-to-day project activities will be implemented by the National Secretariat Office which has extensive experience in managing Bank financed projects, and the Office will be the main liaison on the part of the IA and the government.	M
<ul style="list-style-type: none"> Project Level <p>The project's financial management arrangements are not finalized.</p>	S	A detailed FM Manual will be prepared and adopted by the project which will specify adequate financial management and disbursement procedures for successful implementation of the project from financial management perspective.	M
Control Risk			
<ul style="list-style-type: none"> Budgeting <p>Poor budgeting: the project funds not used for the intended purposes due to poor budgeting and budget controls. The project funds may not be spent in accordance with the project budget. The approved project budget may be arbitrarily reduced by MOF.</p>	H	<p>Annual project budgets will be prepared each year based on procurement and disbursement plans and approved by the PSC and the Bank.</p> <p>The PIU shall conduct variance analysis between actual vs. planned expenses of the project if needed and communicate the issues with large discrepancies with the task team for resolution.</p> <p>The PIU and the Implementing Agency will work closely with MOF to ensure that approved annual project budgets are properly secured for project use only.</p>	S
<ul style="list-style-type: none"> Accounting <p>Reliability of the accounting records as the bookkeeping will be manual.</p>	S	The PIU's previous experience in generating quality financial reports was satisfactory. In addition, the project financial statements will be reviewed on a semi-annual basis and an annual financial audit will be conducted.	M
<ul style="list-style-type: none"> Internal Control <p>Weak internal controls: there are not any internal controls related financial management policies and procedures established for the project.</p>	S	The internal control procedures and practices employed under the previous Bank financed projects implemented by the PIU will be applied. Furthermore, a project FM Manual will be prepared and adopted by the PIU as approved by the Bank. The manual will document detailed internal control procedures which will be followed during the project	M



		implementation.	
<ul style="list-style-type: none"> Funds Flow <p>Delays and bottlenecks in the project funds flow and disbursement through the Treasury Single Account.</p>	H	The PIU will closely work with the IA and MOF in ensuring the project funds are managed as efficiently as possible through the government’s Treasury system.	S
<ul style="list-style-type: none"> Financial Reporting <p>Reliability and timeliness of financial reporting: the financial statements do not fully and accurately report on the project activities and usage of project funds.</p>	S	The project will adopt financial reporting templates that satisfy the Bank’s reporting requirements. Interim Financial Reports (IFRs) will be prepared and submitted to the Bank for review on a semi-annual basis as specified in the legal agreement. Overall, the project will adopt similar financial reporting arrangements as employed under the previous EITI projects financed by the Bank.	M
<ul style="list-style-type: none"> Auditing <p>Audit quality: Unqualified auditors may audit the project implementation. Poor follow-up on audit findings: PIU does not address audit findings noted by the auditors.</p>	S	An independent external audit firm, acceptable to the Bank, will be appointed by the Mongolian National Audit Office to conduct the project’s annual audit under agreed terms of reference. The Bank’s FM team will monitor the PIU’s implementation of annual audit findings, if any.	M
Overall	S		M

Disbursement and funds flow arrangements. The disbursement and flow of funds arrangements for the project will rely on the country systems. The grant proceeds will flow through the project Designated Account (DA) in USD to be opened with the Treasury Single Account (TSA) managed by the Ministry of Finance (MOF). The DA will be used to received funds from the Bank as well as to make payments in USD. Another project sub-account (SA) in MNT will be opened with the Treasury which will be used for local currency transactions pertaining to project activities. Transactions from both project accounts will be approved by a designated signatory from MOF and the State Secretary from the MMHI. The DA ceiling will be specified in the Disbursement and Financial Information Letter (DFIL), and the SA will not have a specific ceiling but will be dictated by the ceiling established for the DA. A Zero balance account will be maintained separately at a commercial bank, the State Bank, and will be used to initially draw funds from the Bank. Once the funds are received in the Zero balance account, they will automatically get transferred to the project DA. This renders the Zero balance account a “pass-through account” through which funds from the Bank get transferred to the main project DA. The PIU may manage a petty cash up to the ceiling to be approved under the project’s internal control procedures. Specific funds flow arrangements will be specified in the project’s FM Manual.

Four disbursement methods will be available for the project: advance, reimbursement, direct payment, and special commitment. The primary method of disbursement for the project will be the advance method. Supporting documents for the Bank disbursements will be Statements of Expenditures (SOEs). The detailed requirements will be laid out in the DFIL.

The project proceeds will be disbursed against eligible expenditures according to below table.

Category	Allocated Grant Amount (US\$)	Percentage of Expenditures to Be Financed (inclusive of Taxes)
(1) Non-consulting services, Consulting services, Training and Workshop, and Incremental Bank Charges under the Project	500,000	100%
Total Amount	500,000	

Budgeting, accounting and financial reporting. The PIU will prepare an annual budget/disbursement plan which will be submitted to the PSC for approval and to the Bank for no-objection. The PIU will maintain separate accounting records and financial reporting for the grant proceeds. As the project implementing unit, the National Secretariat Office will manage and handle the financial management aspects of the project and, therefore, it will be responsible for recording the project transactions, preparing project financial statements, and retaining all documentation supporting disbursements as well as processing the withdrawal applications during the life of the project. The PIU will prepare IFRs on a semi-annual basis and will submit the reports to the Bank for review within 45 days after the end of each reporting period. The PIU may use the same reporting format for IFRs as previously used under the Bank financed projects implemented by the PIU for financial reporting purposes of the grant project.

Internal control. An FM Manual will be prepared and adopted by the project. The manual will be followed for the procedures relating to proper authorization for payment requests, segregation of duties, financial reporting requirements, and other specific internal control procedures and practices relating to the project's FM and disbursement. In addition, regular oversight by the PSC, periodic supervision missions by the Bank, annual financial audits by independent external auditors, and internal audits from the implementing agency itself will serve as mechanisms to ensure that the project's FM systems function effectively.

Audit arrangements. The Bank requires the project financial statements to be audited in accordance with auditing standards acceptable to the Bank. Therefore, in line with other Bank-financed projects in Mongolia, the Mongolian National Audit Office will appoint an independent external auditor acceptable to the Bank to conduct annual audits of the project financial statements in accordance with the International Standards on Auditing and under the terms of reference satisfactory to the Bank. The audit will be financed from the project proceeds.



The annual audit report of project financial statements will be due to the Bank within six months after the end of each reporting period ending December 31. This requirement will be stipulated in the DFIL.

Supervision plan. The supervision strategy for this project is based on its FM risk rating, which will be evaluated on a regular basis by the FM specialist in line with the Bank's FM guidance and in consultation with the project TTL.

Procurement Arrangements

Procurement. Procurement will be carried out in accordance with Procurement Regulations for IPF Borrowers dated July 2016, and revised in November 2017, August 2018 and November 2020, and per provisions stipulated in the Grant Agreement. Alternative procurement arrangement will not be used in the project.

Procurement arrangements are based on the Project Procurement Strategy for Development (PPSD). Works are not anticipated under this project. Goods to be procured may include IT system, office equipment and office furniture for the PIU. Non-consulting services to be procured may include services for producing video materials, printing reports/handbooks/advocacy materials, promoting EITI through social medias, disseminating through radio/TV/social medias, organizing training activities and dissemination workshops. All goods and non-consulting services will be procured through open competition (Request for bids or Request for quotations) by approaching national market, considering that there are sufficient number of local suppliers, and that the value of the contracts will be relatively small. Direct selection may be used for some non-consultant services in exceptional cases where the service providers have unique qualifications.

Firm consultancy services to be procured include design of beneficiary ownership reporting online system, upgrading the existing e-reporting system and integrating it with e-government system, developing social dashboard, developing a module and API that outputs all e-reporting templates data, updating design of the online contract disclosure platform. Most firm consultant services will be procured through open competition by approaching the national market, considering that there are sufficient qualified local consultants, and that the value of the contracts will be relatively small. Consultant's Qualification Based Selection (CQS) will be used in most contracts. Direct selection may be used for some consultant services in exceptional cases where the service provider is unique. Most individual consultant services will be procured through open competition. Direct selection may be used in exceptional cases where the individual consultants have unique experience and qualifications to the assignment, or where the assignment is with a total expected duration of less than six months.

Procurement risk assessment and mitigation measures. Procurement and contract implementation will be assumed by the National Secretariat for EITI (PIU) which is housed under the MMHI. The National Secretariat has experience and satisfactory track record in implementing Bank financed projects including the EITI Phase I and II grants, Post Compliance I and II as well as the Mongolia Improved Governance Extractives Project since 2007. The risks identified from the procurement capacity and risk assessment include: (i) the PIU procurement officer may be changed and the new officer may have little knowledge about procurement in Bank financed projects; (ii) the procurement for small value contracts can follow simple procedures, but in practice it may be made complicated as the domestic practices may have influence on people's behavior even when the Bank's procurement policies will be used; (iii) the



evaluation committee members normally do not have knowledge and experience in procurement arrangements under the Bank financed projects, and the evaluation may not be conducted in accordance with the Bank's Procurement Regulations for the IPF Borrowers, and by the provisions stipulated in the Grant Agreement. The project procurement risk is rated as moderate.

Mitigation actions of the identified risks include: (i) the Bank team delivers regular training to the PIU staff and the evaluation committee members; (ii) procurement post review is carried timely and relevant findings are shared with PIU timely.

Procurement oversight and monitoring arrangements. The responsibility for the procurement oversight and monitoring rests with the National Secretariat for EITI. In addition, the procurement will also be subject to annual government audit.

Procurement documentation references. The procurement plan for the whole project implementation period has been prepared by the PIU. It will be made available on the Bank's external website. The procurement plan has set forth the thresholds for procurement methods and prior/post reviews requirements. The Procurement Plan will be updated annually, or as required to reflect implementation needs and improvements in institutional capacity.

Mitigation for complying with Anti-corruption Guidelines (ACG): (i) upon grant effectiveness, the PIU to circulate the ACG to all its staff; (ii) the PIU to deliver one training for the ACG to its staff and management who are engaged in this project upon the grant effectiveness, and to deliver the same training once per year; (iii) all the contract templates to include provisions requiring the suppliers / consultants to abide by the ACG, to permit the Bank to inspect all accounts, records and other documents relating to the project and to have them audited by or on behalf of the Bank; (iv) the PIU to remove any staff from all duties and positions in connection with the project if such staff is engaged in any fraud and corruption practice; (v) the PIU to include one paragraph in each of its semi-annual project progress reports particularly for disclosing and reporting any allegation of fraud and corruption issues; and (vi) the PIU to ensure that the selected supplier / consultant is not declared ineligible by the Bank.